

**HOUSE 4975: AN ACT TO MANAGE FEDERAL TAX CHANGES IN MASSACHUSETTS**

**SPONSOR:** Governor Maura T. Healey

**PRIOR HISTORY:** None.

**EXISTING LAWS**

**AFFECTED:** G.L. c. 62, §§ 1,2; c. 62B, § 2; c. 62C; c. 63, § 30.

**SUMMARY:**

- Temporarily decouples the state corporate tax code and business entities taxed as pass-through entities (e.g. S Corps) from five provisions contained in Pub. L. 119–21 (the One Big Beautiful Bill Act or OBBBA).

The provisions are as follows:

<b>OBBBA Provision</b>	<b>Description</b>	<b>Expiration of Decoupling (i.e. date OBBBA provision ‘Coupled’ to State Tax Code)</b>
§ 70302	<b>Increased deductibility for R&amp;D expenses</b> – Permits a corporation to elect to deduct domestic R & D expenses in the year that they were incurred. <sup>1</sup> Prior to OBBBA, corporations were required to “amortize” their R&D expenditures. Amortization in accounting is a technique that is used to gradually write-down the cost of an intangible asset over its expected period of use or, in other words, useful life. <sup>2</sup>	1/1/2026
§ 70303	<b>Business Interest Change</b> – I.R.C. § 163 (j) limits corporations from deducting business interest based on a formula that includes 30% of the adjusted taxable income, among other components. <sup>3</sup> OBBBA redefined “adjusted	1/1/2027

<sup>1</sup> See OBBBA § 70302(a), adding I.R.C. § 174A(a).

<sup>2</sup> See <https://tax.thomsonreuters.com/blog/amortization-in-accounting-101/#:~:text=Amortization%20in%20accounting%20is%20a,statement%20from%20the%20balance%20sheet>.

<sup>3</sup> A corporation cannot deduct business interest in excess of the taxpayer’s (A) earned business interest; (B) 30% of the adjusted taxable income; and (C) the floor plan financing interest. See I.R.C. § 163 (j) (1).

	taxable income” to permanently exclude depreciation and amortization. <sup>4</sup> The redefinition makes adjusted taxable income larger. Thus, the “30% of adjusted taxable income” component of the business interest limit is greater, and the corporation may deduct more business interest.	
§ 70306	<b>Depreciable Business Assets</b> – Section 179 property is tangible property or computer software and satisfies other requirements. <sup>5</sup> I.R.C. § 179 permits a taxpayer to choose to “expense” instead of treat this type of property as a capital expenditure. <sup>6</sup> OBBBA increased the maximum permissible “expensing” of Section 179 property from \$1,000,000 to \$2,500,000. <sup>7</sup>	1/1/2027
§ 70307	<b>Qualified Production Property (i.e. bonus depreciation)</b> – OBBBA created a new tax treatment of a class of property in the tax code, qualified production property. <sup>8</sup> Qualified production property is qualified real property that is constructed between January 19, 2025 and before January 1, 2029. <sup>9</sup> It must be placed in service January 1, 2031. <sup>10</sup> If it satisfies these requirements, among others, qualified production property is immediately deductible. <sup>11</sup>	1/1/2027
§ 70421	<b>Opportunity Zones</b> – OBBBA makes permanent and makes significant changes to the opportunity zone tax provision added to the code by the Tax Cuts and Job Act	1/1/2027

<sup>4</sup> See OBBBA § 70303 (a), amending I.R.C. § 163(j)(8)(A)(v). Prior to OBBBA, only pre-2022 amortization/depreciation was deductible from “adjusted taxable income.” See *id.*

<sup>5</sup> See I.R.C. § 179 (d).

<sup>6</sup> See Section 179 Deduction, *West's Tax Law Dictionary* § S660.

<sup>7</sup> See OBBBA § 70306(a), amending I.R.C. § 179(b).

<sup>8</sup> See OBBBA § 70307(a), adding I.R.C. § 168 (n).

<sup>9</sup> See OBBBA § 70307(a), adding I.R.C. § 168 (n)(2)(A) (v).

<sup>10</sup> See OBBBA § 70307(a), adding I.R.C. § 168(n)(2)(A)(vii).

<sup>11</sup> See OBBBA § 70307 (a), adding I.R.C. § 168(n)(1).

	<p>of 2017. A “qualified opportunity zone” is a population census tract that is a low-income community.<sup>12</sup></p> <p>For an opportunity zone investment that is held for more than ten years, there is no capital gains tax imposed.<sup>13</sup></p> <p>For an opportunity-zone investment held for more than five years, OBBBA increased the basis of the investment by 10%.<sup>14</sup> The basis of investments in qualifying rural communities held for more than five years is increased by 30%.<sup>15</sup></p> <p>Typically, in calculating capital gains taxes, the “basis” is the purchase price of the investment. The tax is calculated by subtracting the basis from the sale price and multiplying the difference by the tax rate. Thus, increasing the “basis” decreases the tax liability.</p>	
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- Requires an “opportunity zone to be located in Massachusetts for a state corporate tax advantage.
- Aligns MA and federal thresholds for casinos to issue form W-2G for slot winnings.
- Creates an optional 4% excise tax on pass-through entities (e.g. S corps) on income earned over the Fair Share surtax threshold.<sup>16</sup>
- Amends the contribution percentages of the two parts of the Paid Family and Medical Leave program between large employers and workers. The small employer 0% contribution remains the same. The changes are as follows:

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<sup>12</sup>I.R.C. § 1400Z-1.

<sup>13</sup>I.R.C. § 1400Z-2(c).

<sup>14</sup>OBBBA § 70421 (b) (2), amending I.R.C, § 1400Z-2 (b)(2)(B)(iii).

<sup>15</sup>*ID.*

<sup>16</sup>The excise tax is an addition to the excise tax for non-surtax income. *See* G.L. c. 63D.

*Family Leave*

<b>Type of Leave</b>	<b>Large Employer Share</b>	<b>Worker Share</b>
Current Law	0%	100%
Bill	60%	40%

*Medical Leave*

<b>Type of Leave</b>	<b>Large Employer Share</b>	<b>Worker Share</b>
Current Law	60%	40%
Bill	0%	100%

- If a future change to federal tax law has an impact on state tax revenue that the DOR Commissioner determines is greater than \$20,000,000 the change will not apply for the fiscal year that the change is effective or the subsequent fiscal year.

**SIMILAR**  
**MATTERS:**

None.

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